

ALBA PUBLIC SCHOOL

ALBA , MICHIGAN

JUNE 30, 2006

ALBA PUBLIC SCHOOL
ALBA, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2006

TABLE OF CONTENTS

	<u>PAGES</u>
Independent Auditors' Report	i-ii
Management's Discussion and Analysis	iii-viii
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Balance Sheet – Governmental Funds	3
Reconciliation of Balance Sheet of Governmental Funds to Net Assets	4
Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6
Fiduciary Funds	
Statement of Fiduciary Assets and Liabilities	7
Notes to Financial Statements	8-21
Required Supplementary Information	
Budgetary Comparison Schedule	22
Combining and Individual Fund Financial Statements	
Nonmajor Governmental Fund Types	
Combining Balance Sheet	23
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	24
Financial Statements of Individual Major Governmental Funds	
General Fund	
Schedule of Revenues, Expenditures, and Other Sources - Budget and Actual	25-27
Other Information	
Bond Payment Schedule	
1998 School Building and Site Bonds	28
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29-30

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CERTIFIED PUBLIC ACCOUNTANTS

August 3, 2006

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Alba Public School
Alba, Michigan 49611

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Alba Public School, Alba, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the Districts' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Alba Public School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position, the governmental activities, each major fund, and the aggregate remaining fund information of Alba Public School, Alba, Michigan, as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 3, 2006, on our consideration of Alba Public School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages iii through viii and 22, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Alba Public School, Alba, Michigan basic financial statements. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

**Alba Public School
Alba, Michigan
Management's Discussion and Analysis
Year Ended June 30, 2006**

Alba Public School, a K-12 school district located in Antrim County, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Alba Public School administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2006.

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: fund financial statements and government-wide financial statements.

A. Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, school districts' major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in various other funds. These include Special Revenue Funds and Debt Service Funds.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition with no asset being reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. The obligations for future years' debt service are not recorded in the fund financial statements.

B. Government-Wide Financial Statements

The government-wide financial statements, required by GASB 34, are calculated using full accrual accounting and more closely represent those presented by business and industry. The District's entire assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation, as well as the noncurrent debt of the District.

**Alba Public School
Alba, Michigan
Management's Discussion and Analysis
Year Ended June 30, 2006**

C. Summary of Net Assets

The following schedule summarizes the net assets at June 30,

Assets	2006	2005
Current Assets	\$ 921,290	\$ 772,651
Non Current Assets		
Capital Assets	\$ 4,071,033	\$ 4,018,489
Less Accumulated Depreciation	(1,110,582)	(1,044,547)
Total Non Current Assets	\$ 2,960,451	\$ 2,973,942
Total Assets	<u>\$ 3,881,741</u>	<u>\$ 3,746,593</u>
Liabilities		
Current Liabilities	\$ 404,993	\$ 332,097
Non Current Liabilities	2,610,000	2,712,600
Total Liabilities	<u>\$ 3,014,993</u>	<u>\$ 3,044,697</u>
Net Assets		
Invested in Capital Assets Net of Related Debt	\$ 247,851	\$ 163,742
Restricted for Debt Service	229,101	222,590
Unrestricted	389,796	315,564
Total Net Assets	<u>\$ 866,748</u>	<u>\$ 701,896</u>
Total Liabilities and Net Assets	<u>\$ 3,881,741</u>	<u>\$ 3,746,593</u>

D. Analysis of Financial Position

During the fiscal year ended June 30, 2006, the District's net assets increased by \$164,852. A few of the more significant factors affecting net assets during the year are discussed below:

1. Depreciation Expense

GASB 34 requires school districts to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2006, \$113,306 was recorded for depreciation expense.

**Alba Public School
Alba, Michigan
Management's Discussion and Analysis
Year Ended June 30, 2006**

2. Capital Outlay Acquisitions

For the year ended June 30, 2006, \$99,815 of expenditures were capitalized and recorded as assets of the District. These additions to the District's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets and the current year's depreciation is a decrease in capital assets in the amount of \$13,491 for the year ended June 30, 2006.

E. Results of Operations

For the years ended June 30, the results of operations, on a District-wide basis, were:

	2006	% of Total	2005	% of Total
General Revenues				
Property Taxes	\$ 809,373	37.1%	\$ 776,052	40.2%
Unrestricted Investment Earnings	12,572	0.6%	8,543	0.4%
State Sources	981,521	45.0%	850,637	44.2%
Other	55,310	2.5%	0	0.0%
Total General Revenues	<u>\$ 1,858,776</u>	<u>85.2%</u>	<u>\$ 1,635,232</u>	<u>84.8%</u>
Program Revenues				
Charges for Services	\$ 25,222	1.3%	\$ 22,537	1.3%
Operating Grants	295,027	13.5%	267,281	13.9%
Total Program Revenues	<u>\$ 320,249</u>	<u>14.8%</u>	<u>\$ 289,818</u>	<u>15.2%</u>
Total Revenues	<u>\$ 2,179,025</u>	<u>100.0%</u>	<u>\$ 1,925,050</u>	<u>100.0%</u>
Expenses				
Instruction	\$ 1,073,749	53.3%	\$ 974,348	53.4%
Supporting Services	577,115	28.7%	602,204	33.0%
Food Service Activities	94,435	4.7%	92,703	5.1%
Athletic Activities	25,930	1.3%	22,140	1.2%
Interest on Long-Term Debt	129,638	6.4%	134,342	7.3%
Unallocated Depreciation	113,306	5.6%	0	0.0%
Total Expenses	<u>\$ 2,014,173</u>	<u>100.0%</u>	<u>\$ 1,825,737</u>	<u>100.0%</u>
Change in Net Assets	<u>\$ 164,852</u>		<u>\$ 99,313</u>	

**Alba Public School
Alba, Michigan
Management's Discussion and Analysis
Year Ended June 30, 2006**

F. Analysis of Significant Revenues and Expenses

Significant revenues and expenditures are discussed in the segments below:

1. Property Taxes

The District levies 18 mills of property taxes for operations on non-homestead properties, less the mandatory reductions required by the Headlee Amendment, Article IX, Section 31. According to Michigan law, the tax levy is based on the taxable valuation of properties. The annual taxable valuation increases are capped at the rate of the prior year's Consumer's Price Index increase or 5%, whichever is less. At the time property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is half of the property's market value.

For the 2005-2006 fiscal year, the District levied \$588,009 in non-homestead property taxes. This represented an increase of 4.96% from the prior year. The amount of unpaid property taxes at June 30, 2006 was \$4,279.

The following table summarizes the non-homestead property tax levies for operations for the past two years:

Fiscal Year	Non-Homestead Tax Levy
2005-2006	\$ 588,009
2004-2005	560,207

2. State Sources

The majority of the state sources is comprised of the per student foundation allowance. The State of Michigan funds districts based on a blended student enrollment. The blended enrollment consists of 75% of the current year's fall count and 25% of the prior year's spring count. For the 2005-2006 fiscal year, the District received \$7,100 per student FTE.

3. Operating Grants

The District funds a significant portion of its operations with categorical sources. For the year ended June 30, 2006, federal, state, and other grants accounted for \$295,027. This represents an increase of \$27,746 from the total grant sources received for the 2004-2005 fiscal year.

G. Comparative Expenditures

A comparison of the expenditures reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances is shown below:

**Alba Public School
Alba, Michigan
Management's Discussion and Analysis
Year Ended June 30, 2006**

A comparison of expenditures by fund follows:

Expenditures	2005-2006 Fiscal Year	2004-2005 Fiscal Year	Increase (Decrease)
General Fund	\$ 1,725,213	\$ 1,505,683	\$ 219,530
Food Service Fund	94,435	92,703	1,732
Athletic Activities Fund	25,930	22,140	3,790
Debt Service Fund	219,980	219,096	884
Capital Projects Fund	33,750	0	33,750
Total Expenditures	\$ 2,099,308	\$ 1,839,622	\$ 259,686

H. General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the 2005-2006 fiscal year, the District amended the general fund budget once, with the Board adopting the changes in June 2006. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget, and actual totals from operations:

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET OVER (UNDER)
Total Revenues	\$ 1,700,448	\$ 1,846,330	\$ 1,841,097	\$ (5,233)
EXPENDITURES				
Instruction	\$ 1,051,048	\$ 1,097,741	\$ 1,076,482	(21,259)
Supporting Services	588,842	701,024	648,731	(52,293)
Total Expenditures	\$ 1,639,890	\$ 1,798,765	\$ 1,725,213	\$ (73,552)

The original revenue budget of \$1,700,448 was increased to \$1,846,330 primarily as a result of increased State Aid.

**Alba Public School
Alba, Michigan
Management's Discussion and Analysis
Year Ended June 30, 2006**

I. Capital Asset and Debt Administration

1. Capital Assets

By the end of the 2005-2006 fiscal year, the District had invested \$2,960,451 in a broad range of capital assets, including school buildings and facilities, school buses and various types of equipment. This represents a net decrease of \$13,491 from the prior fiscal year. Depreciation expense for the year amounted to \$113,306 bringing the accumulation to \$1,110,582 as of June 30, 2006.

2. Long-Term Debt

At June 30, 2006, the District had \$2,712,600 in long-term debt outstanding. This represents a reduction of \$97,600 from the amount outstanding at the close of the prior fiscal year. No new debt was incurred during the 2005-2006 fiscal year.

J. Factors Bearing on the District's Future

At the time that these financial statements were prepared and audited, the District was aware of the following items that could significantly affect its financial health in the future:

- With the current economic condition in the country, and especially in the State of Michigan, uncertainty surrounds the level at which districts will be funded for the student foundation allowance for the 2006-2007 fiscal year. The early indication is that the foundation allowance will be held flat with continued pro-ration of the discretionary payment. This will pose a challenge to the District to maintain structural balance while continuing with its educational programming.
- As with other employers, the District continues to face a rapid increase in rates paid for employee benefits, particularly for health insurance. The District has been experiencing double-digit increases.
- Additionally, the State increased the retirement rate to 16.34% during 2005-2006, the retirement rate is expected to increase again to 17.74% in 2006-2007.

Contacting the District's Financial Management

- This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact the Business Manager, Alba Public School, P.O. Box 10, Alba, Michigan 49611.

ALBA PUBLIC SCHOOL
ALBA, MICHIGAN
STATEMENT OF NET ASSETS
JUNE 30, 2006

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 651,633
Taxes Receivable	5,351
Accounts Receivable	6,698
Inventory	1,513
Due from Other Governmental Units	256,095
Total Current Assets	<u>\$ 921,290</u>
<u>NON CURRENT ASSETS</u>	
Capital assets	\$ 4,071,033
Less Accumulated Depreciation	<u>(1,110,582)</u>
Total Non Current Assets	<u>\$ 2,960,451</u>
TOTAL ASSETS	<u>\$ 3,881,741</u>
<u>LIABILITIES AND NET ASSETS</u>	
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Account payable	\$ 134,211
Accrued liabilities	146,970
Deferred revenue	21,212
Current Portion of Non Current Liabilities	102,600
Total Current Liabilities	<u>\$ 404,993</u>
<u>NON CURRENT LIABILITIES</u>	
Bonds Payable	\$ 2,705,000
Bus Note Payable	7,600
Less Current Portion of Non Current Liabilities	<u>(102,600)</u>
Total Non Current Liabilities	<u>\$ 2,610,000</u>
Total Liabilities	<u>\$ 3,014,993</u>
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	\$ 247,851
Restricted for Debt Service	229,101
Unrestricted	389,796
Total Net Assets	<u>\$ 866,748</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,881,741</u>

See Notes to Financial Statements

ALBA PUBLIC SCHOOL
ALBA, MICHIGAN

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2006

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		GOVERNMENTAL
		CHARGES FOR	OPERATING	ACTIVITIES
		SERVICES	GRANTS	NET (EXPENSES)
				REVENUES AND
				CHANGE IN
				NET ASSETS
<u>GOVERNMENTAL ACTIVITIES</u>				
Instruction	\$1,073,749	\$ 0	\$201,462	\$ (872,287)
Support Services	577,115	0	9,370	(567,745)
Athletic Activities	25,930	3,800	0	(22,130)
Food Service	94,435	21,422	84,195	11,182
Interest on Long Term Debt	129,638	0	0	(129,638)
Unallocated Depreciation	113,306	0	0	(113,306)
Total Governmental Activities	<u>\$2,014,173</u>	<u>\$ 25,222</u>	<u>\$295,027</u>	<u>\$ (1,693,924)</u>
<u>GENERAL REVENUES</u>				
Property taxes levied for general purposes				\$ 588,009
Property taxes levied for debt services				221,364
State aid not restricted to specific purposes				981,521
Interest and investment earnings				12,572
Other				55,310
Total General Revenue				<u>\$ 1,858,776</u>
Change in net assets				\$ 164,852
<u>NET ASSETS</u> - Beginning of Year				<u>701,896</u>
<u>NET ASSETS</u> - End of Year				<u>\$ 866,748</u>

See Notes to Financial Statements

ALBA PUBLIC SCHOOL
ALBA, MICHIGAN

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2006

	GENERAL FUND	1998 DEBT SERVICE FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>				
Cash	\$ 431,064	\$ 205,392	\$ 15,177	\$ 651,633
Taxes Receivable	4,279	1,072	0	5,351
Accounts Receivable	6,698	0	0	6,698
Inventory	0	0	1,513	1,513
Due from Other Funds	0	22,637	0	22,637
Due from Other Governmental Units	255,542	0	553	256,095
TOTAL ASSETS	\$ 697,583	\$ 229,101	\$ 17,243	\$ 943,927
<u>LIABILITIES AND FUND BALANCES</u>				
<u>LIABILITIES</u>				
Accounts Payable	\$ 134,211	\$ 0	\$ 0	\$ 134,211
Accrued Liabilities	126,079	0	0	126,079
Due to Other Funds	22,637	0	0	22,637
Deferred Revenue	21,212	0	0	21,212
Total Liabilities	\$ 304,139	\$ 0	\$ 0	\$ 304,139
<u>FUND BALANCES</u>				
Reserved for Inventory	\$ 0	\$ 0	\$ 1,513	\$ 1,513
Reserved for Debt Service	0	229,101	0	229,101
Designated for Food Service	0	0	15,730	15,730
Unreserved, Undesignated	393,444	0	0	393,444
Total Fund Balances	\$ 393,444	\$ 229,101	\$ 17,243	\$ 639,788
TOTAL LIABILITIES AND FUND BALANCES	\$ 697,583	\$ 229,101	\$ 17,243	\$ 943,927

See Notes to Financial Statements

ALBA PUBLIC SCHOOL
ALBA, MICHIGAN

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS

JUNE 30, 2006

Total Governmental Fund Balances	\$ 639,788
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital Assets - at Cost	4,071,033
Accumulated Depreciation	(1,110,582)
Certain liabilities such as bonds and notes payable are not due and payable in the current period and therefore are not reported in the governmental funds	
Bonds Payable	(2,705,000)
Bus Note Payable	(7,600)
Accrued interest payable is not included as a liability in the governmental funds	<u>(20,891)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 866,748</u></u>

See Notes to Financial Statements

ALBA PUBLIC SCHOOL
ALBA , MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	GENERAL	1998 DEBT	OTHER NONMAJOR	TOTAL
	FUND	SERVICE	GOVERNMENTAL	GOVERNMENTAL
	FUND	FUND	FUNDS	FUNDS
<u>REVENUES</u>				
Local Sources	\$ 648,744	\$ 226,491	\$ 25,222	\$ 900,457
State Sources	1,127,923	0	8,538	1,136,461
Federal Sources	64,430	0	75,657	140,087
Total Revenues	\$1,841,097	\$ 226,491	\$ 109,417	\$ 2,177,005
<u>EXPENDITURES</u>				
Instruction	\$1,076,482	\$ 0	\$ 0	\$ 1,076,482
Supporting Services	577,115	0	0	577,115
Athletic Activities	0	0	25,930	25,930
Food Service	0	0	94,435	94,435
Capital Outlay	63,332	0	33,750	97,082
Debt Service:				
Principal	7,600	90,000	0	97,600
Interest and Other Charges	684	129,980	0	130,664
Total Expenditures	\$1,725,213	\$ 219,980	\$ 154,115	\$ 2,099,308
Excess (Deficiency) of Revenues Over Expenditures	\$ 115,884	\$ 6,511	\$ (44,698)	\$ 77,697
<u>OTHER FINANCING SOURCES (USES)</u>				
Sale of Capital Assets	\$ 2,020	\$ 0	\$ 0	\$ 2,020
Transfers In	0	0	55,880	55,880
Transfers (Out)	(55,880)	0	0	(55,880)
Total Other Financing Sources (Uses)	\$ (53,860)	\$ 0	\$ 55,880	\$ 2,020
Net Change in Fund Balances	\$ 62,024	\$ 6,511	\$ 11,182	\$ 79,717
<u>FUND BALANCES</u> - Beginning of Year	331,420	222,590	6,061	560,071
<u>FUND BALANCES</u> - End of Year	\$ 393,444	\$ 229,101	\$ 17,243	\$ 639,788

See Notes to Financial Statements

ALBA PUBLIC SCHOOL
ALBA, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$ 79,717
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Amounts reported for *governmental activities* in the statement of activities
are different because:

Governmental funds report capital outlay as expenditures. However, in
the statement of activities, the cost of those assets is allocated over their
estimated useful lives and reported as depreciation expense.

Add - Capital Outlay	99,815
Deduct - Depreciation Expense	(113,306)

Repayment of bond principal is an expenditure in the governmental
funds, but the repayment reduces long-term liabilities in the
statement of net assets.

Add - Principal Payments on Long-term Liabilities	97,600
Add - Decrease in Accrued Interest Payable	<u>1,026</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$164,852</u></u>
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ALBA PUBLIC SCHOOL
ALBA, MICHIGAN

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
JUNE 30, 2006

ASSETS

Cash	<u>\$ 28,992</u>
<u>TOTAL ASSETS</u>	<u><u>\$ 28,992</u></u>

LIABILITIES

Due to Student Groups	<u>\$ 28,992</u>
<u>TOTAL LIABILITIES</u>	<u><u>\$ 28,992</u></u>

See Notes to Financial Statements

ALBA PUBLIC SCHOOL
ALBA, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Alba Public School have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The School District is located in Antrim County with its administrative offices located in Alba, Michigan. The District operates under an elected 7-member board of education and provides services to its 227 students in elementary, middle school, high school, special education, transportation, food service, and athletics. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. The District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. The District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column is presented on a consolidated basis, and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

ALBA PUBLIC SCHOOL
ALBA, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and charges, etc.). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues).

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *GENERAL FUND* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *DEBT SERVICE FUND* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Other Non-Major Funds

The *SPECIAL REVENUE FUNDS* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

The *CAPITAL PROJECTS SINKING FUND* records capital project activities funded with Sinking Fund millage.

Fiduciary Funds

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

ALBA PUBLIC SCHOOL
ALBA, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

The *AGENCY FUND* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005. For the year ended June 30, 2006, the per pupil foundation allowance was \$7,100 for Alba Public School.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The

ALBA PUBLIC SCHOOL
ALBA, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

State revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30th is reported as due from other governments.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

D. Other Accounting Policies

1. Cash and Investments

Cash includes amounts in demand deposits.

Investments are carried at market value.

The District complies with State statutes regarding investment of funds.

The Board policy on investment of funds authorizes the School District to invest as follows:

- (a) Bonds, bills, or notes of the United States, or obligations, the principal and interest of which are fully guaranteed by the United States Government, or obligations of the state.
- (b) Certificates of deposit issued by any state or national bank organized and authorized to operate in this state.
- (c) Commercial paper rated prime 1 or prime 2 at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government.
- (e) United States government of Federal agency obligation repurchase agreements.
- (f) Bankers' acceptance issued by a bank that is a member of the Federal deposit insurance corporation.
- (g) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (h) Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled

ALBA PUBLIC SCHOOL
ALBA, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Laws, composed entirely of instruments that are legal for direct investment by a school district.

The Board of Education is authorized to designate depositories for District funds, and the funds are invested in accordance with State of Michigan statutory authority. There were no investments at June 30, 2006.

2. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables".

3. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. Property taxes are assessed as of January 1 and billed and due December 1. Unpaid taxes become delinquent as of February 14th and are subject to penalties and interest after that date. Uncollected taxes at year-end are not material.

For the year ended June 30, 2006, the District levied the following amounts per \$1,000 of taxable valuation:

<u>Fund</u>	<u>Mills</u>
General Fund – Non-homestead	17.7210
Debt Service Fund – Homestead and non-homestead	4.2000

4. Inventories and Prepaid Expenditures

Inventories are valued at cost. Inventories in the special revenue funds consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

ALBA PUBLIC SCHOOL
ALBA, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Buildings and additions	10 - 50 years
Buses and other vehicles	7 - 15 years
Furniture and other equipment	2 - 20 years

The District's capitalization policy is to capitalize individual items exceeding \$1,000.

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. The District has elected to apply the provisions of GASB 34 paragraph 146 which allows the amortization of premiums, discounts and bond issuance costs to be applied prospectively for all bonds issued after July 1, 2002.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. Fund Equity

In the fund financial statements, the unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Reservations of fund balance are for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

8. Use of Estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

ALBA PUBLIC SCHOOL
ALBA, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general, special revenue and debt service funds.

Encumbrance accounting is not employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) lapse at year-end and do not constitute expenditures or liabilities because the commitments will generally be reappropriated and honored during the subsequent year.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations if any are noted in the required supplementary information section.
4. The superintendent is charged with general supervision of the budgets and shall hold the department heads responsible for performance of their responsibilities.
5. During the year the budgets are monitored and amendments to the budget resolution are made when it is deemed necessary.
6. Budgeted amounts are as originally adopted on June 13, 2005, or as amended by the School Board of Education on June 12, 2006.

B. Excess of Expenditures Over Appropriations

Excess of expenditures over appropriations occurred in the following funds:

ALBA PUBLIC SCHOOL
ALBA, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

School Service Fund – Food Service Fund expenditures of \$94,435 exceeded appropriations of \$79,702 by \$14,733.

School Service Fund – Athletic Activities Fund expenditures of \$25,930 exceeded appropriations of \$25,850 by \$80.

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Deposits

The District's deposits and investments are on deposit with Northwestern Bank.

Investment rate risk. The District minimizes Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the District's cash requirement.

Foreign currency risk. The District is not authorized to invest in investments, which have this type of risk.

Credit risk. The District minimizes Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the District's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the District will do business in accordance with the District's investment policy.

Concentration of credit risk. The District minimizes Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2006, \$445,641 of the government's bank balance of \$683,879 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered, or securities held by the District or the District's agent in the District's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the District's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its

ALBA PUBLIC SCHOOL
ALBA, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

trust department or its agent but not in the District's name. At year end all of the District's investments were uncategorized as to risk.

Investments

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered, or securities held by the District or the District's agent in the District's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the District's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the District's name.

At year-end, the District did not have any investments.

B. Receivables

Receivables as of year end for the government's individual major funds and nonmajor funds in the aggregate; including the applicable allowances for uncollectible accounts, are as follows:

	GENERAL FUND	DEBT SERVICE FUND	NONMAJOR AND OTHER FUNDS	TOTAL
Receivables				
Taxes	\$ 4,279	\$ 1,072	\$ 0	\$ 5,351
Accounts	6,698	0	0	6,698
Due from Other Governments	255,542	0	553	256,095
	<u>\$ 266,519</u>	<u>\$ 1,072</u>	<u>\$ 553</u>	<u>\$ 268,144</u>

The allowance for doubtful accounts is not considered to be material for disclosure.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Grant Receipts Received, But Not Yet Utilized	<u>\$ 0</u>	<u>\$ 21,212</u>

ALBA PUBLIC SCHOOL
ALBA, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

C. Capital Assets

A summary of changes in the District's capital assets follows:

	Balance			Balance
	July 1, 2005	Additions	Deletions	June 30, 2006
Capital assets not being depreciated - Land	\$ 19,000	\$ 0	\$ 0	\$ 19,000
Capital assets being depreciated				
Building and building improvements	\$ 3,328,096	\$ 0	\$ 0	\$ 3,328,096
Buses and other vehicles	148,562	57,014	47,270	158,306
Furniture and equipment	522,831	9,051	0	531,882
Construction in Progress	0	33,750	0	33,750
Subtotal	\$ 3,999,489	\$ 99,815	\$ 47,270	\$ 4,052,034
Less accumulated depreciation for:				
Building and building improvements	\$ 668,329	\$ 66,562	\$ 0	\$ 734,891
Buses and other vehicles	91,884	17,413	47,270	62,027
Furniture and equipment	284,334	29,331	0	313,665
Accumulated Depreciation	\$ 1,044,547	\$ 113,306	\$ 47,270	\$ 1,110,583
Net capital assets being depreciated	\$ 2,954,942	\$ (13,491)	\$ 0	\$ 2,941,451
Net capital assets	\$ 2,973,942	\$ (13,491)	\$ 0	\$ 2,960,451

Depreciation for the fiscal year ended June 30, 2006 amounted to \$113,306. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

D. Long-Term Debt

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

The following is a summary of governmental long-term obligations for the District for the year ended June 30, 2006:

ALBA PUBLIC SCHOOL
ALBA, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental Activities					
1998 Bonds Payable	\$2,795,000	\$ 0	\$ 90,000	\$2,705,000	\$ 95,000
School Bus Loan	15,200	0	7,600	7,600	7,600
Total	<u>\$2,810,200</u>	<u>\$ 0</u>	<u>\$ 97,600</u>	<u>\$2,712,600</u>	<u>\$ 102,600</u>

At June 30, 2006, the District's long-term debt consisted of the following issues:

1998 School Building and Site Bonds Due in Annual Installments of \$95,000 to \$225,000 through May 1, 2024, Interest at 4.40% to 4.80%	\$2,705,000
School Bus Contract, payable \$7,600 per year, interest at 4.5%	<u>7,600</u>
Total long-term debt	<u>\$2,712,600</u>

The requirements to amortize debt outstanding as of June 30, 2006, including interest of \$1,381,454 are as follows:

Year ending June 30,	Bonds Principal	Bonds Interest	School Bus Loans Principal	School Bus Loans Interest	Amounts Payable
2007	\$ 95,000	\$ 125,660	\$ 7,600	\$ 342	\$ 228,602
2008	100,000	121,480	0	0	221,480
2009	105,000	117,080	0	0	222,080
2010	110,000	112,460	0	0	222,460
2011	115,000	107,565	0	0	222,565
2012-2016	675,000	454,458	0	0	1,129,458
2017-2021	870,000	280,249	0	0	1,150,249
2022-2025	635,000	62,160	0	0	697,160
	<u>\$ 2,705,000</u>	<u>\$ 1,381,112</u>	<u>\$ 7,600</u>	<u>\$ 342</u>	<u>\$ 4,094,054</u>

ALBA PUBLIC SCHOOL
ALBA, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

E. Interfund Receivables, Payables, and Transfers

Interfund Receivables and Payables as shown in the individual fund financial statements at June 30, 2006, were:

	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 0	\$ 22,637
1998 Debt Service Fund	22,637	0
	<u>\$ 22,637</u>	<u>\$ 22,637</u>

Interfund transfers as shown in the individual fund financial statements at June 30, 2006, were:

	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
General Fund	\$ 0	\$ 55,880
Athletic Activities Fund	22,130	0
Sinking Fund	33,750	0
	<u>\$ 55,880</u>	<u>\$ 55,880</u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the School must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies.

F. Designated and Reserved Fund Balance

The School has reserved or designated the fund balances as follows:

1. Food Service Fund

The School's policy is to show fund balance of the Food Service Fund as designated for this purpose.

2. Debt Service Fund

The entire fund balance of the Debt Service Fund is reserved for debt service.

3. Inventory

The Food Service Fund Balance is reserved for inventories to emphasize that these amounts are not appropriable for other purposes.

ALBA PUBLIC SCHOOL
ALBA, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

G. Lease Information

Operating Leases – The School District leases three copy machines. Lease expense for the current year was \$9,898. Future minimum lease payments are as follows

<u>YEAR ENDED JUNE 30,</u>	<u>AMOUNT</u>
2007	\$ 6,667
2008	4,920
2009	2,023

NOTE 4 – OTHER INFORMATION

A. Employee Retirement System

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operates under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (517) 322-5103.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the first quarter of the year ended June 30, 2006, was 14.87%, and for the last three quarters it was 16.34%. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the

ALBA PUBLIC SCHOOL
ALBA, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

year ended June 30, 2006, 2005 and 2004 were \$144,909, \$119,369 and \$103,949 respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post-employment Benefits

Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

B. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2006 or any of the prior three years.

C. Single Audit Report

Current federal guidelines require entities with federal expenditures exceeding \$500,000 to have a "single audit" of federally funded programs. At June 30, 2006, the School District's expenditures for federally funded programs were less than \$500,000 and therefore, the District is not required to have a "Single Audit" for the fiscal year ended June 30, 2006.

D. Sinking Fund Tax Levy

On May 2, 2006, the taxpayers approved a sinking fund tax levy. The School is authorized to levy .5 mills for five years beginning with the 2006 tax roll. The Sinking Fund will be used for the repairs of the gym roof and new lighting in the school. The transactions for the sinking fund are accounted for in a capital projects fund. For this fund, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

ALBA PUBLIC SCHOOL
ALBA, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
<u>REVENUES</u>				
Local Sources	\$1,548,500	\$ 621,134	\$ 648,744	\$ 27,610
State Sources	72,362	1,144,814	1,127,923	(16,891)
Federal Sources	79,586	80,382	64,430	(15,952)
Total Revenues	\$1,700,448	\$ 1,846,330	\$1,841,097	\$ (5,233)
<u>EXPENDITURES</u>				
Instruction:				
Basic Programs	\$ 862,900	\$ 882,036	\$ 856,011	\$ 26,025
Added Needs	188,148	215,705	217,738	(2,033)
Capital Outlay	0	0	2,733	(2,733)
Supporting Services:				
Instructional Staff	500	18,000	12,149	5,851
General Administration	261,270	283,888	266,413	17,475
Business Office	57,700	57,700	44,542	13,158
Plant Operation and Maintenance	188,323	192,273	179,500	12,773
Pupil Transportation	72,765	83,865	74,511	9,354
Other Business Services	8,284	8,284	8,284	0
Capital Outlay	0	57,014	63,332	(6,318)
Total Expenditures	\$1,639,890	\$ 1,798,765	\$1,725,213	\$ 73,552
Excess (Deficiency) of Revenues Over Expenditures	\$ 60,558	\$ 47,565	\$ 115,884	\$ 68,319
<u>OTHER FINANCING SOURCES (USES)</u>				
Sale of Capital Assets	\$ 0	\$ 2,020	\$ 2,020	\$ 0
Transfers Out	(24,160)	(25,850)	(55,880)	(30,030)
Total Other Financing Sources (Uses)	\$ (24,160)	\$ (23,830)	\$ (53,860)	\$ (30,030)
Net Change in Fund Balances	\$ 36,398	\$ 23,735	\$ 62,024	\$ 38,289
<u>FUND BALANCES</u> - Beginning of Year	331,420	331,420	331,420	0
<u>FUND BALANCES</u> - End of Year	\$ 367,818	\$ 355,155	\$ 393,444	\$ 38,289

See Notes to Financial Statements

ALBA PUBLIC SCHOOL

ALBA, MICHIGAN

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES

JUNE 30, 2006

	<u>SPECIAL REVENUE FUNDS</u>		<u>CAPITAL PROJECTS</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
	<u>ATHLETIC ACTIVITIES FUND</u>	<u>FOOD SERVICE FUND</u>	<u>SINKING FUND</u>	
<u>ASSETS</u>				
Cash	\$ 0	\$ 15,177	\$ 0	\$ 15,177
Inventory	0	1,513	0	1,513
Due from Other Governmental Units	0	553	0	553
 TOTAL ASSETS	 \$ 0	 \$ 17,243	 \$ 0	 \$ 17,243
 <u>LIABILITIES AND FUND BALANCES</u>				
 <u>LIABILITIES</u>	 \$ 0	 \$ 0	 \$ 0	 \$ 0
 <u>FUND BALANCES</u>				
Reserved for Inventory	\$ 0	\$ 1,513	\$ 0	\$ 1,513
Unreserved				
Designated for Food Service	0	15,730	0	15,730
 Total Fund Balances	 \$ 0	 \$ 17,243	 \$ 0	 \$ 17,243
 TOTAL LIABILITIES AND FUND BALANCES	 \$ 0	 \$ 17,243	 \$ 0	 \$ 17,243

See Notes to Financial Statements

ALBA PUBLIC SCHOOL
ALBA, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2006

	<u>SPECIAL REVENUE FUNDS</u>		<u>CAPITAL PROJECTS</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
	<u>ATHLETIC ACTIVITIES FUND</u>	<u>FOOD SERVICE FUND</u>	<u>SINKING FUND</u>	
<u>REVENUES</u>				
Local Sources	\$ 3,800	\$ 21,422	\$ 0	\$ 25,222
State Sources	0	8,538	0	8,538
Federal Sources	0	75,657	0	75,657
Total Revenues	\$ 3,800	\$ 105,617	\$ 0	\$ 109,417
<u>EXPENDITURES</u>				
Athletic Activities	\$ 25,930	\$ 0	\$ 0	\$ 25,930
Food Service	0	94,435	0	94,435
Capital Outlay	0	0	33,750	33,750
Total Expenditures	\$ 25,930	\$ 94,435	\$ 33,750	\$ 154,115
Excess (Deficiency) of Revenues Over Expenditures	\$ (22,130)	\$ 11,182	\$ (33,750)	\$ (44,698)
<u>OTHER FINANCING SOURCES</u>				
Transfers In - General Fund	22,130	0	33,750	55,880
Net Change in Fund Balances	\$ 0	\$ 11,182	\$ 0	\$ 11,182
<u>FUND BALANCES</u> - Beginning of Year	0	6,061	0	6,061
<u>FUND BALANCES</u> - End of Year	\$ 0	\$ 17,243	\$ 0	\$ 17,243

See Notes to Financial Statements

ALBA PUBLIC SCHOOL

ALBA, MICHIGAN

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND OTHER SOURCES (USES)

BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2006

	BUDGETED AMOUNT			VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL	ACTUAL	OVER (UNDER)
LOCAL SOURCES				
Taxes and Penalties	\$1,526,350	\$ 585,532	\$ 588,009	\$ 2,477
Interest Income	2,500	7,000	7,445	445
Miscellaneous Income	9,150	18,102	14,496	(3,606)
Incoming Transfers ISD	10,500	10,500	38,794	28,294
Total Local Sources	\$1,548,500	\$ 621,134	\$ 648,744	\$ 27,610
STATE SOURCES				
Categorical State Aid	\$ 72,362	\$1,144,814	\$1,127,923	\$ (16,891)
Total State Sources	\$ 72,362	\$1,144,814	\$1,127,923	\$ (16,891)
FEDERAL SOURCES				
Title I	\$ 48,284	\$ 48,284	\$ 35,326	\$ (12,958)
Title II A	13,414	13,414	13,112	(302)
Title V	1,989	1,989	1,796	(193)
Title II D Education Technology	1,227	1,227	901	(326)
REAP Grant	14,672	14,672	9,370	(5,302)
Katrina Hurricane Relief	0	0	1,029	1,029
State Plan Self Review Grant	0	0	2,100	2,100
Incoming Transfers ISD & Other	0	796	796	0
Total Federal Sources	\$ 79,586	\$ 80,382	\$ 64,430	\$ (15,952)
OTHER FINANCING SOURCES				
Sale of Capital Assets	\$ 0	\$ 2,020	\$ 2,020	\$ 0
Total Revenue	\$1,700,448	\$1,848,350	\$1,843,117	\$ (5,233)

See Notes to Financial Statements

ALBA PUBLIC SCHOOL

ALBA, MICHIGAN

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND OTHER SOURCES (USES)

BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2006

<u>INSTRUCTION</u>	<u>BUDGETED AMOUNT</u>		<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET OVER (UNDER)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
Basic Programs:				
Elementary	\$ 454,512	\$ 394,326	\$ 406,260	\$ (11,934)
Secondary	408,388	417,101	394,650	22,451
Preschool	0	70,609	55,101	15,508
Total Basic Programs	\$ 862,900	\$ 882,036	\$ 856,011	\$ 26,025
Added Needs:				
Special Education	\$ 86,450	\$ 84,175	\$ 99,649	\$ (15,474)
Title I	48,284	48,284	35,326	12,958
Title II A	13,414	14,914	14,606	308
At Risk	40,000	68,332	68,157	175
Total Added Needs	\$ 188,148	\$ 215,705	\$ 217,738	\$ (2,033)
Other - Capital Outlay	\$ 0	\$ 0	\$ 2,733	\$ (2,733)
Total Instruction	\$1,051,048	\$1,097,741	\$1,076,482	\$ 21,259
<u>SUPPORTING SERVICES</u>				
Instructional Staff:				
Library	\$ 500	\$ 18,000	\$ 12,149	\$ 5,851
Total Instructional Staff	\$ 500	\$ 18,000	\$ 12,149	\$ 5,851
General Administration:				
Board of Education	\$ 38,470	\$ 74,370	\$ 50,048	\$ 24,322
Executive Administration	222,800	209,518	216,365	(6,847)
Total General Administration	\$ 261,270	\$ 283,888	\$ 266,413	\$ 17,475

See Notes to Financial Statements

ALBA PUBLIC SCHOOL

ALBA, MICHIGAN

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND OTHER SOURCES (USES)

BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2006

	<u>BUDGETED AMOUNT</u>			<u>VARIANCE WITH FINAL BUDGET OVER (UNDER)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	
Business Office	\$ 57,700	\$ 57,700	\$ 44,542	\$ 13,158
Plant Operation and Maintenance	188,323	192,273	179,500	12,773
Pupil Transportation	72,765	83,865	74,511	9,354
Principal	7,600	7,600	7,600	0
Interest	684	684	684	0
Capital Outlay	0	57,014	63,332	(6,318)
	<hr/>			
Total Supporting Services	\$ 588,842	\$ 701,024	\$ 648,731	\$ 52,293
	<hr/>			
<u>OUTGOING TRANSFERS</u>				
Sinking Fund	\$ 0	\$ 0	\$ 33,750	\$ (33,750)
Athletic Activities Fund	24,160	25,850	22,130	3,720
	<hr/>			
Total Outgoing Transfers	\$ 24,160	\$ 25,850	\$ 55,880	\$ (30,030)
	<hr/>			
TOTAL EXPENDITURES AND TRANSFERS OUT	\$1,664,050	\$1,824,615	\$1,781,093	\$ 43,522
	<hr/> <hr/>			

See Notes to Financial Statements

ALBA PUBLIC SCHOOL
ALBA, MICHIGAN

BOND PAYMENT SCHEDULE
1998 SCHOOL BUILDING AND SITE BONDS

<u>Fiscal June 30</u>	2002 Debt Principal	2002 Debt Interest	Total
2007	\$ 95,000	\$ 125,660	\$ 220,660
2008	100,000	121,480	221,480
2009	105,000	117,080	222,080
2010	110,000	112,460	222,460
2011	115,000	107,565	222,565
2012	120,000	102,448	222,448
2013	130,000	97,108	227,108
2014	135,000	91,322	226,322
2015	140,000	85,045	225,045
2016	150,000	78,535	228,535
2017	155,000	71,560	226,560
2018	165,000	64,275	229,275
2019	175,000	56,520	231,520
2020	185,000	48,294	233,294
2021	190,000	39,600	229,600
2022	200,000	30,480	230,480
2023	210,000	20,880	230,880
2024	225,000	10,800	235,800
	<u>\$2,705,000</u>	<u>\$1,381,112</u>	<u>\$4,086,112</u>

Principal payments due

May 1

Interest payments due

May 1 and
November 1

Interest rate

4.40% to 4.80%

Original issue

\$3,130,000

See Notes to Financial Statements

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

August 3, 2006

REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Education
Alba Public School
Alba, Michigan 49611

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Alba Public School as of and for the year ended June 30, 2006, which collectively comprise the Alba Public School's basic financial statements and have issued our report thereon dated August 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Alba Public School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Alba Public School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Alba Public School in a separate letter dated August 3, 2006.

This report is intended solely for the information and use of management, federal awarding agencies, pass-through entities, the Michigan Department of Education, and Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

BAIRD, COTTER AND BISHOP, P.C.

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Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

August 3, 2006

LETTER OF COMMENTS AND RECOMMENDATIONS

Board of Education
Alba Public Schools
Alba, Michigan

We have completed our audit of the basic financial statements of Alba Public School for the year ended June 30, 2006, and would like to comment on the following items relative to the management and accounting procedures of the School District:

Due To/Due From Between Funds

At June 30, 2006, the General Fund still owed the Debt Service Fund the balance remaining from June 30, 2005. This balance resulted from mispostings of property tax revenue between the funds. We recommend this be paid to the Debt Service Fund. The property taxes collected for the Debt Service Fund belong in the Debt Service Fund and should be balanced out annually.

Receipt Book

Your computer system automatically assigns a receipt number to every cash receipt entered. We recommend that these receipts be printed after each entry is made and then kept in a book in receipt order number with the backup attached in order to facilitate locating receipts. Teena has taken steps to meet the above recommendation.

Sinking Fund

A new capital projects fund was set up for June 30, 2006 due to the sinking fund tax levy being approved May 2, 2006. A separate bank account will need to be opened once the taxes from the 2006 tax levy start to come in. Because work has been started on the gym roof before any tax money has been received, General Fund has paid the first invoice for the roof. The financial statements show a transfer from General Fund to the Sinking Fund to cover the sinking fund expenditure. The transfers will continue until the Sinking Fund has enough tax revenue to pay for the expenditures and then will need to transfer the money back to General Fund. These transfers between funds will need to be approved by the Board.

Budgeting

The School District is required under Public Act 621 of 1978 to adopt (pass) a budget (General Appropriations Act) for the General Fund and Individual Special Revenue and Debt Service Funds. The District had excess expenditures over appropriations of \$ 14,733 in the Food Service Fund and \$80 in the Athletic Activities Fund.

The Michigan Department of Education is working towards various policy adjustments in regards to budget violations and are considering retroactive implementation of these policies to the 2004-2005 and the 2005-2006 fiscal years.

Specifically, the Department will be focusing on a couple of significant areas as it relates to the General Fund.

1. Total Expenditure violations that exceed 1% of the Total Expenditures budget.
2. Total Other Financing Uses violations that exceed 1% of the Total Other Financing Uses budget.

A budget violation would include incurring expenditures in excess of the approved appropriation, ending the fiscal year with a deficit fund balance or adopting a budget that would result in a deficit fund balance.

The Department is also considering that a violation for the 2005-2006 fiscal year may also include a situation where the District did not achieve their full revenue budget and, at the same time, depleted the district fund balance beyond what had been approved.

These proposed policy adjustments will place a renewed importance on the need to monitor the budget process very closely.

We recommend the District review the 2006-2007 budget to make sure that actual revenues will be greater than budgeted revenues, that actual expenditures by function will not be greater than appropriated and that a negative fund balance is not budgeted.

In addition, the conference agreement relative to the 2006-2007 state school aid act reached July 12, 2006 includes a provision that will require the District to begin posting the annual operating budget as well subsequent budget amendments on the website for the District. It is expected that this requirement will become effective October 1, 2006. As a result, the District should begin preparing to meet this new requirement.

Internal Controls

The management of the District is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles in the United States. Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future

periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

The limited number of employees available to handle cash and account for transactions makes it unfeasible to have an adequate separation of duties. This condition results in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the financial statements of the District may occur and not be detected within a timely period.

We recommend the Board remain aware of this situation and periodically evaluate the cost vs. benefit of adding additional staff to correct this internal control limitation along with other ways to mitigate this weakness. Having the superintendent review monthly bank reconciliations and having only Board of Education members sign all disbursement checks is a good control to mitigate this internal control weakness.

We sincerely thank the Board for awarding this firm the audit assignment of the District, and the administration and staff for their cooperative spirit and assistance in helping us fulfill this audit engagement. The friendly, cooperative and enthusiastic response to our requests for data, facts and figures is very much appreciated and enhances the efficiency of the audit process. If you have any questions relative to the preceding comments and recommendations or other areas of your annual audit, please feel free to contact us.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.